

**Minutes of the Roundtable**

**Seated at the moderated discussion table:**

1. Secretary of State Sam Reed
2. Rebecca Sherrell, *OSOS Charities Program Manager*
3. Mike Ricchio, *OSOS, Director of Corporations*
4. Shane Hamlin, *OSOS, Legislative Liaison*
5. Glenn Lamb, *Columbia Land Trust*
6. Elizabeth Sato, *Wiconi International*
7. Tom Bashwiner, *Daybreak Youth Services*
8. James K. Phelps, *American Civil Liberties Union*
9. Tori Bryson, *Moss Adams*
10. Jeanne Kojis, *The Nonprofit Network (Moderator)*
11. Nancy Hales, *The Community Foundation*
12. David Wilde, *Open House Ministries*
13. Val Ogden, *Center for the Arts*

**Roundtable convened.**

**Jeanne Kojis (Nonprofit Network)** makes opening remarks. She thanks Secretary Reed for his community outreach in traveling throughout the state to hear from the nonprofit sector. She also thanks Nancy Hales from the Community Foundation for her collaboration in organizing the roundtable. Jeanne Kojis also gives a special thanks to the panel members and for their work to prepare for the roundtable. She introduces the panel members.

She notes that all in attendance are brought to the roundtable because of their passion for building a better community through effective nonprofits. She encourages audience members to contribute to the discussion.

*Floor is given to Secretary of State, Sam Reed.*

**Secretary Reed** thanks attendees for participating in the roundtable. He notes that throughout all the roundtables [in Bellingham, Tacoma, and Seattle] he has been struck by the commitment of attendees to their communities. He comments that the roundtables have been very helpful in gaining a better understanding of the nonprofit sector.

Secretary Reed notes that in the last legislative session, the charities bill was introduced in reaction to a number of things around the nation, notably, September 11<sup>th</sup> and natural disasters, like Hurricane Katrina. The legislation was created in part because there were organizations in Washington State that are on the list of organizations funneling money to terrorist organizations. Additionally, there was extensive discussion among the states nationally about what the state role should be in this sector. The nationwide discussion began as a result of an Independent Sector Report, which recommended adequate oversight of the nonprofit sector in order to deliver information to the public while maintaining the sectors independence.

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The Office of the Secretary of State has the important role of providing the public with information and education about charities and soliciting organizations. He notes that most people [public donors] want to know how much money is spent on the mission of the organization versus the overhead of the organization.

He notes that the purpose of the roundtable is to discuss how to best improve accountability and the transparency of nonprofit organizations. The goal is also to raise the profile of the Charities Division because it is fairly small in comparison with other states' charities programs. Finally, he notes that the goal of this process is to make information better available to the public and retain public confidence in the sector.

Secretary Reed notes that generosity is a uniquely American trait. All socio-economic classes participate in volunteerism and giving money; this is one trait that has made American society so great.

*Secretary of State Sam Reed gives the floor to Shane Hamlin, Legislative Liaison, OSOS*

**Shane Hamlin (OSOS)** encourages frankness in an open discussion about the legislation. He notes that the goal of the project is to help build sustainable trust in the nonprofit sector. He explains that the next steps of the project are to form an advisory group, after all roundtables are concluded, to help develop the legislation. He says that the Office of the Secretary of State intends to introduce the legislation in the upcoming legislative session.

He encourages attendees to use the website to make additional comments following the roundtable.

*Floor is given to Mike Ricchio, Director of Corporations, OSOS*

**Mike Ricchio (OSOS)** explains that the charities division of the Secretary of State's Office deals with organizations that fall under RCW Chapters 19.09 and 11.110, that is, charitable organizations soliciting from the public, and charitable trusts. He notes that there are about 50,000 nonprofit organizations registered in the Secretary of State's Office; of those, 12,000 are registered soliciting organizations. He notes that not every soliciting organization is a nonprofit.

Mike Ricchio comments that this legislative project began two years ago, when the Charities Program was revising its computer system and realized that a close examination of the law and requirements was necessary to improve and streamline the registering process. He notes that the current statutes have not been reviewed in about 20 years; the Charities Program thought the law should be revised and address any shortcomings for today's nonprofit sector. The need to review the current law was bolstered by the publication of the Independent Sector Report.

Senator Grassley asked the Independent Sector to survey each state's nonprofit communities. Mike Ricchio notes that the legislation is intended to:

1. streamline registering requirements

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2. clarify definitions
3. improve accountability and transparency of organizations
  - a. he notes that it is important for board members to maintain contact with the activity of their organization
  - b. he notes that the accountability discussion is not about a format for governance. It is a discussion regarding improving the knowledge of, and endorsement from, the board of the financial on-goings of the organization.

He explains the key provisions of the bill:

Definition of religious activities

He comments that the reason this is in the bill is because it is an area that the Charities Program gets a lot of questions about. There is general confusion about who should register and who is exempt [from registering]. There is also confusion about the difference between religious activities and churches. He notes that the intention of this provision is to make it clearer that the organization has to be advancing religion to be exempt. He asks if the language is troubling or if there are comments about this provision.

**Tim Austin (Open House Ministries)** comments that he is comfortable with the language because a lot of organizations can collect more money if they are associated with a religion. He notes, however, that the issue goes beyond just having to register.

**David Wilde (Open House Ministries)** notes that the language used in the provision appears to be in line with advice from a lawyer in his organization and the Department of Labor standards.

**Audience Member** asks if an example can be given of how groups choose religious or non-religious.

**Rebecca Sherrell (OSOS)** notes that there are organizations that are using “religious” to define them in order to avoid registering. She explains that the Office of the Secretary of State is looking for activities that are solely religious. If it is a faith-based homeless shelter, or feeding the hungry, these are charitable activities as defined in 19.09 and would be required to register.

**Elizabeth Sato (Wiconi International)** cautions discussants from providing examples about religious activities that identify what is and what is not a religious practice, because all organizations get grouped together.

She also notes that registering with the Office of the secretary of State has a great benefit for religious organizations. She encourages the Office of the Secretary of State to support religious organizations registering. She notes that religious organizations have a huge stereotype attached to them. She asks that the response from the Secretary of State’s Office be sensitive to religious organizations.

**Mike Ricchio (OSOS)** moves the discussion to the audit provision. He clarifies that what the office is looking for is an independent third party review [of financial statements]. He notes that 16 states currently have an audit requirement. Out of 12,000 organizations registered in

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Washington State, just over 2,000 would qualify for an audit; he suggests that most of those organizations are already completing an audit. He notes that if the threshold moves from \$1million to \$2 million, about 1,500 organizations would qualify for the audit.

He clarifies that the audit requirement does not encompass the whole sector. For example, a PTO or a PTA would not meet the audit requirement. He notes that if an organization is having an audit done and is submitting it, the board members of the organization should be aware of what is documented in the audit as well.

He comments that having an audit requirement allows the public to see the financial workings of an organization and ask questions, if they have any. Providing access to the financial documents enables the public to see that the finances of the organization comport with the donor's intention for donating.

Mike Ricchio notes that the problem that has been brought to the attention of the Office of the Secretary of State is with term "audit." The term is laden with controversy and open to interpretation. He notes that the aim is to get a third party financial review for the accountability of the organization.

**Secretary of State Sam Reed** reads a portion of the Independent Sector Report, pertaining to audits. He reflects that a review seems to be more acceptable. He also notes that the issue has been raised about total revenue; land trusts, for example, easily have \$1 million in total assets because of the value of property. He suggests that his office is considering the threshold to be based on solicited revenue from the public, not total assets.

**Mike Ricchio (OSOS)** notes that a land trust is a great example, because an organization does not have to hold a lot of land to exceed \$1 million in total assets. He notes that the Office of the Secretary of State is increasingly persuaded to consider using solicited funds.

**Newt Rumble (Peterson and Associates, P.S.)** notes that audited financial statements should provide a level of comfort of where donor dollars is coming from. He comments that he is not sure if this will answer the question of where money is going to, referencing Secretary Reed's previous comment about organizations funneling money to terrorist organizations.

He notes that the Office of the Secretary of State has expressed that it does not want to involve itself in governance issues, but it seems that governance is what needs to be addressed to answer questions about where money is going. He also notes that it is not possible to divorce governance and responsibility from financial accountability.

**Secretary of State Sam Reed** acknowledges Newt Rumbles comment. He explains that this legislation is not intended to be a cure all. He expresses concern about public distrust and notes that the aim of the legislation is for the Office of the Secretary of State to stake steps to increase organizational accountability and transparency.

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He also notes that requiring a board to see and acknowledge the audit of an organization seems like a practical, good governance practice.

**Nancy Hales (The community Foundation)** suggests that more work needs to be done to define what the Office of the Secretary of State seeks from an audit, and from a financial review. She notes that her organization is grant-giving and that it has rigorous controls about how and where money is spent. She asks for the Office of the Secretary of State to consider where granting fits into the legislation.

**Tom Bashwiner (Daybreak Youth Services)** notes that in his experience that charities get into trouble when the board does not know what is going on inside the organization. He provides the example of the LA County United Way. He supports the idea of having board members signing off on financial statements. He reminds attendees that board members are the public's representative to the organization.

**Secretary of State Sam Reed** notes that, unfortunately, the public voice that the Office of the Secretary of State hears is one that addresses complaints and problems. He acknowledges that legislating honesty is not possible, but that efforts to have the board acknowledge the financial statements will increase accountability.

**Val Ogden (Center for the Arts)** comments that she does not think that anyone would be upset about having a board that is fiscally responsible. She notes that she is troubled over the interchanging of the terms "audit" and "financial review." She also notes that in reading the legislation, she believes it to be aimed at organizations with paid staff; she asks about those organizations that are operated solely by volunteers.

**Secretary of State Sam Reed** notes that his office is definitely moving towards a review. He acknowledges that defining what a review is, in terms of the legislation, is important. He comments that for what the Office of the Secretary of State is hoping to accomplish, the review is what is necessary. He notes that the interest of the Office of the Secretary of State is in solicited funds from the public. He comments that the goal is for the public to see the transparency and accountability of the organization.

**James K. Phelps (ACLU)** asks if the scope of the legislation does change to focus on solicited funds, will it be limited to solicited moneys inside the state of Washington. He also asks if it would be clearer to have the regulations be limited for locally raised funds rather than funds raised by the national and international bodies of larger organizations.

**Rebecca Sherrell (OSOS)** clarifies that a chapter is not required to register under 19.09, if they do not raise more than \$25,000. If a chapter raises more than \$25,000 or has paid staff, it is required to register. She notes that this would reflect how the books of the organization are kept.

**Glenn Lamb (Columbia Land Trust)** recognizes a comment made by Val Ogden regarding standards and practices. He notes that his organization and others like his have organized a

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professional association to make sure organizations are responsible and effective. He suggests the state provide an example of standards and practices that charities would be expected to use. He also suggests having training and outreach programs to encourage the sector to share information.

He notes that if an organization raises \$500,000 of public funds, the organization is required by the federal government to complete an audit (A-133 audit). He notes that it seems like having a financial review if an organization solicits \$1 million of public funds is keeping in line with the federal government requirements.

**Secretary of State Sam Reed** notes that the Clark County Auditor [in attendance at the roundtable] is aware of how much the Office of the Secretary of State values and invests in education for the public. Currently, he notes that his office has established public educational programs for election officials and also for organizations seeking to preserve historical records. He notes that he is delighted to hear about the positive support for proactive education. He comments that at past roundtable, he has heard support for raising the registration fee to allow for funds and staffing for educational outreach.

**Elson Strahan (National Historic Reserve Trust)** appreciates the attention that the Office of the Secretary of State has given to defining the audit and a financial review. He comments that his organization requires its auditor to attend board meetings, which provides for year-round due diligence. He encourages further definition of “donated” or “fundraising” in the discussion of assets and to consider the donation of equipment or donated goods when developing any definition of revenues.

**Tim Austin (Open House Ministries)** notes that his organization has more than \$1 million in household good donations. He comments that organizations that are conducting audits already have well over \$1 million.

He notes that even a financial review can be expensive. He suggests that the proposed threshold to trigger an “audit” [or financial review] is too low.

**Rebecca Sherrell (OSOS)** asks if in-kind donations are reported in the IRS 990 as direct cash contributions.

**Tim Austin (Open House Ministries)** comments that in-kind donations are included in total revenue, but the differentiation of in-kind versus cash donations should be written into the legislation.

**Tori Bryson (Moss Adams)** offers comments from the public accounting perspective. She notes that an audit has a specific set of procedures. Also, a financial review requires a lot less work than an audit. With a financial review, a CPA does not look at internal controls. She suggests defining the outcome that is desired by the Office of the Secretary of State before defining that

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document; if the office wants to look at internal controls, an audit is necessary. She agrees that the \$1 million threshold is too low, suggesting that it would put a strain on organizations.

**Elizabeth Sato (Wiconi International)** notes that, as a side note, her organization researched the cost of an audit and found it to be \$5,000-6,000 dollars. She notes that there are other costs beyond the \$5,000-\$6,000 because of the internal costs of preparing for an audit.

**Tim Austin (Open House Ministries)** comments that to have an external audit, the organization needs an internal accountant.

**Audience Member** suggests that only organizations that are really good at fundraising are getting ninety cents for every one dollar raised. She agrees that the \$1 million threshold is too low. She suggests that it is a leadership opportunity for Washington State to raise the threshold, and also to encourage a voluntary audit because voluntary is what donors like to see. The voluntary action gives accountability to the organizations, and voluntary accountability brings in more donor dollars.

**Elson Strahan (National Historic Reserve Trust)** suggests that the threshold dollar amount should be clarified. He notes that if a person donates \$2 million to outfit a new skills center for equipment, all of the \$2 million goes towards the skills center. He suggests that reviewing the terms and definitions is essential to the effectiveness of this legislation. He comments that everyone present at the roundtable might agree, but he is concerned about what happens when the definitions get enacted in legislation.

**Audience Member** notes that on the IRS form 990, fundraising is separated from contributions. He notes that there are also organizations with large endowments or capital campaigns that will contribute to a spike in the finances of an organization that would otherwise be under the threshold amount.

**Glenn Lamb (Columbia Land Trust)** asks if a group is raising \$1 million or more are there controls already in place that make sure the money is being accounted for. He expresses appreciation that the Office of the Secretary of State wants to ensure public trust and accountability; he notes that the organization must realize that part of doing a capital campaign is realizing that the organization must account for the money properly.

**Mike Ricchio (OSOS)** notes that improving enforcement is a combination of improving education and accountability.

**James K. Phelps (ACLU)** suggests revisiting the comments about education. He notes that plenty of board members are not sure of the legal requirements are, let alone of their fiscal obligations. He suggests that without education, having a \$1 million audit threshold for internal controls will not do much. He suggests that having an educational program will do more.

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**Tom Bashwiner (Daybreak Youth Services)** offers comments about a person in the Department of Licensing that is very helpful in providing customer service, education about obtaining and maintaining a license for gift annuities, and technical assistance in the licensing process. He notes that Washington State is very tough on gift annuities, which he believes is great for donors. He comments that the enforcement is firm, but it is done in a way that all in the sector know the rules. He suggests the model of the Department Licensing for consideration.

**Nancy Hales (The community Foundation)** revisits the comments about education. She suggests that Washington State create internal control standards in addition to the audit requirement. She notes that, while the threshold might deliver the document [the audit], it is all the other pieces that matter most. She suggests the Office of the Secretary of State give the sector more guidance through education.

**Jeanne Kojis (The Nonprofit Network)** notes that standards and practices have been created for well defined groups. She notes that it is incumbent upon the nonprofit sector to come up with sector standards. She urges the Office of the Secretary of State to work with the sector to create these standards. Unfortunately, Washington State does not have a state-wide nonprofit association which could create sector standards. She also comments that she does not think that people really know what the Charities Program is. She suggests working through community foundations to help get the word out. She echoes Elizabeth Sato's earlier comment that it builds credibility of the organization if the organization is listed on the Office of the Secretary of State's website.

**Mike Ricchio (OSOS)** comments that the Office of the Secretary of State is in a unique position to be able to contribute to the sector in that way.

**Secretary of State Sam Reed** notes that there is a public expectation that the Office of the Secretary of State is doing more.

**Newt Rumble (Peterson and Associates, P.S.)** asks if the Office of the Secretary of State is coordinating with auditors and county commissioners.

**Patty Pepin (YWCA)** comments that she would like to see some of the efforts of education directed at the public.

**Val Ogden (Center for the Arts)** asks about section 1, addressing membership. She asks the clarification of being a member without privilege and a member with the privilege to vote be made in the legislation.

**Glenn Lamb (Columbia Land Trust)** asks about the possibility of establishing an acknowledgement or recognition program that would recognize organizations that have been registered with the Office of the Secretary of State to promote good practices.

**Secretary of State Sam Reed** comments that positive recognition does have a good impact.



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**Elizabeth Sato (Wiconi International)** thanks the Office of the Secretary of State for allowing for community discussion about this legislation. She asks the Office of the Secretary of State to work to collaborate to be more responsive and offer training to those in the nonprofit sector to gain skills and expertise that will help the sector be more effective and make the donor dollars go farther.

**Secretary of State Sam Reed** notes that he is concerned about volunteerism because the World War II generation is dropping out of the volunteer force. He wants to encourage volunteerism in Washington State.

**Val Ogden (Center for the Arts)** asks the office to clarify page 5, line 26 and 27 (of section 2) regarding what is an entity to prepare reviews or audits that would be required.

**Mike Ricchio (OSOS)** notes that the definition of “entity” does exist in the statute and acknowledges that the definition could be tweaked, but the definition is there.

**James K. Phelps (ACLU)** expresses concern with the definition of “beneficial the community” (Page 2; section 1, subsection3; line 9). He expresses curiosity as to why the definition is not tied in with the Internal Revenue Code and asks why the office did not use the definition from the IRS (definition is in Section 170). He asks that since there is such IRS huge case law, why the Office of the Secretary of State is using a separate definition.

**Rebecca Sherrell (OSOS)** notes that the aim of the Office of the Secretary of State is to eliminate individuals from the requirement to register. She offers the example of a family that fundraises to offset the cost of medical bills. Right now, the way the law is written, the office would be compelled to seek a registration from the family, and that is not the aim of the office.

**Val Ogden (Center for the Arts)** notes that when specific groups are identified, a door is opened for those groups who are not mentioned.

**Nancy Hales (The Community Foundation)** references page 5, line 35. She asks for a clarification to be made about cash versus non-cash donations, and also further definitions about contributions like endowments.

**Mike Ricchio (OSOS)** notes that this meeting and other roundtables have raised the importance of terminology. He asks for the sector to continue to have input about terminology.

**Secretary of State Sam Reed** thanks Jeanne Kojis and Nancy Hales for their organization of this roundtable. He comments that the roundtable have been helpful to his office and he hopes that the roundtable has been helpful for attendees as well.

He encourages feedback via email. He also thanks attendees from the bottom of his heart for the work that they are doing in their communities.

Vancouver Nonprofit and Charities Roundtable  
Tuesday, 1 August 2006, 10:00 am -12:00 pm

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He encourages feedback via email. He also thanks attendees from the bottom of his heart for the work that they are doing in their communities.

**Jeanne Kojis (The Nonprofit Network)** thanks all attendees.

**Roundtable adjourned.**